

CORPORATE PLANNING DIVISION

No. NH/PD/IP/

Dated: 8.3.2006

Subject: Memorandum of Understanding (MOU) for the year 2006-07 between Ministry of Power and National Hydroelectric Power Corporation Ltd. (NHPC)

Draft MOU of the Corporation for the year 2006-07 was submitted to DPE/ MOP on 8.12.2005. The same was circulated by Ministry of Power among different scrutinizing agencies. Ministry of Power vide letter dated 30.1.2006 has forwarded comments of CEA on the draft MOU with the request that the suggestions put forth by CEA be incorporated in the MOU under consideration.

Based on the inputs received from CPMG and subsequent discussions with D(T), ED Incharge CPMG and CMD, milestones for ongoing projects were revised and the same were incorporated in the draft MOU and were circulated among ATF members and other scrutinizing agencies on 15.02.2006.

Thereafter, negotiation meeting ^{with ATF members} to finalize the MOU was held on 20.2.2006 wherein, broadly following modifications were decided:

- ❖ Milestones for ongoing projects be decided in consultation with MOP/CEA.
- ❖ A new performance indicator be added with regard to ERP (Kiran) activity having weight of 1%
- ❖ Weight of consultancy assignments be reduced from 2% to 1%
- ❖ Target for "Recovery of current dues" for different ratings were enhanced except for "Excellent" rating
- ❖ Generation target for "Excellent" rating was enhanced from 13512 MU to 13550 MU
- ❖ Capacity Index for different rating was decided as under:

Excellent	Very Good	Good	Fair	Poor
97%	96%	95%	94%	93%

Minutes of the above negotiation meeting are still awaited. However, based on the above discussions, following steps have been taken to finalize the MOU 2006-07.

1. Milestones for Ongoing Projects:-

As a follow up of the decision, officers of CPMG and Planning Division visited CEA on 24.2.06 and had discussions with Director (HPM), CEA on 24.2.06, who suggested that more weightage should be given to X Plan Projects i.e. Dulhasti & Teesta-V. Thereafter on 2.3.06 Director (Technical), NHPC discussed this issue with Chairman (CEA) and subsequently discussions were held between officers of NHPC and CEA and milestones for ongoing projects were finalized. Copy of the same is enclosed at **Annex-1**. A meeting with regards to MOU was taken by JS(H) with D(T) on 6.3.06 wherein above decided milestones were agreed.

2. Addition of Milestone for Project "Kiran" in Performance Indicator

IT&C Division was requested to furnish the same and following 3 performance indicator has been furnished by them;

S. No.	Performance Indicator	Wt. %	Performance Rating				
			1	2	3	4	5
1.	Preparation of Functional Requirement Specifications (FRS) Report for ERP Software	0.34	Apr-06	May-06	Jun-06	Jul-06	Aug-06
2.	Preparation of RFP for selection of ERP Software and implementation Partner	0.33	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06
3.	Award of Contract for ERP Software and Implementation	0.33	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07
Total		1 %					

However, during the discussions with D(T), NHPC only one milestone "Award of Contract for ERP Software and Implementation" with a weightage of 1% has been agreed to be kept as MOU milestone *(with target date of Feb 07 and Mar 07 for Excellent and Very Good rating)*

3. Consultancy assignments:

Weightage of the milestone has been reduced from 2% to 1%.

4. Recovery of Current Dues

Based on the discussions during negotiation meeting following targets have been suggested as against the earlier suggested by NHPC.

Item		Excellent	V. Good	Good	Fair	Poor
Recoveries of Current Dues	As per Circulated MOU	97	94	92	90	88
	As suggested by ATF members	97	95	93	91	89

5. Generation Targets:-

Generation with "Excellent" rating was enhanced by ATF members to 13550 MU. O&M Division was requested to furnish the generation targets under different ratings. This issue was discussed with JS(H) by D(T) on 6.3.06 wherein JS (H) directed to settle the issue after discussion with CEA. Based on the discussions of O&M Division in CEA on 7.3.06, the generation targets have been indicated in the table below:

Item	Excellent	V. Good	Good	Fair	Poor
As per Circulated MOU	13512	13115	12459	11836	11244
As furnished by O&M division after discussion in CEA on 7.3.05	13860	13200	12540	11913	11317

6. Capacity Index:-

During the negotiation meeting, ATF member suggested a capacity index of 97% for excellent rating and thereafter at a margin of 1% for each consecutive rating. O&M division is of the opinion that the targets decided by ATF members are not achievable. The issue was discussed on 6.3.06 in the chamber of JS (hydro) and on 7.3.06 with CEA who agreed to the view of

NHPC. Based on this discussion the CI targets were furnished by O&M Division as under:

Item	Excellent	V. Good	Good	Fair	Poor
As per Circulated MOU (%)	95.3	94.6	89.9	85.4	81.1
As suggested by ATF members (%)	97	96	95	94	93
As discussed with CEA on 7.3.06 (%) / <i>agreed</i>	96.5	94.8	92	89.2	86.5

R&D Activities

ATF members suggested no change in the targets for R&D activities. However, this issue was raised by CEA in the Chamber of JS (Hydro) on 6.3.06. The following two changes were agreed:

1. Activity "execution of pilot project of Solar Photo Voltaic installation (25 Kwh) capacity at Nimoo Bazgo HE Project" with a weightage of 1% - **Activity deleted**
2. Activity "initiating process to obtain CDM benefits for the most suitable NHPC Projects" was changed to "Approval of designated National Authority for CDM benefits" with no change in the target dates. However, the weightage was enhanced from 1% to 2%.

Static Financial Parameter

Based on the above agreed generation & CI targets, financial parameters has been worked out by finance division and have been incorporated in the revised MOU.

However it is mentioned that during telephonic discussions of Dir (Hydro) with ED (Plg), ^{it was advised} that NHPC while finalizing the static financial parameters should take into account 30% dividend, which is 30% of the return on equity of Indira Sagar Project as was advised vide letter dated 30.3.05 while finalizing MOU 2005-06. This aspect was not taken into account during MOU for 2005-06 on the plea that all the works of Indira Sagar Project are not yet complete and also the scheduled completion date falls in the next financial year (2006-07). Moreover R%R expenditure for the project has far exceeded the sanctioned amount of Rs. 1160.00 crores, which partly is presently being met through profit from the project.

The same has also not been taken into account while working out static financial parameters for 2006-07. This issue needs to be resolved at the appropriate level.

Revised draft MOU is placed below for approval and sending the same to MOP.

Encl: as above

संदीप 8/3/06

(SANDEEP KUMAR)
Sr. Manager (Plg.)

CE (Plg.)

GM (Plg.)

ED (Plg.)

DCT

CIN

Unsent

CELL

in H.

8/3/06

8/3/06

SM(F)

8/3/06

**REVISED
DRAFT**

**MEMORANDUM
OF
UNDERSTANDING**

BETWEEN

MINISTRY OF POWER

GOVT. OF INDIA

AND

**NATIONAL HYDROELECTRIC POWER
CORPORATION LIMITED**

**FOR THE YEAR
2006-2007**

March 2006



Part-III : PERFORMANCE EVALUATION PARAMETERS AND TARGETS
Performance Parameters & Their Weightages (Year 2006-2007)

SL NO.	Performance Indicator	Unit	Wt.	Performance Rating					BE 2005-06 PSE	BE 2006-07 PSE
Part-A										
I	Static Financial Parameters			1	2	3	4	5		
(a) Financial Performance Indicator										
i)	Gross Margin / Gross Block	%	2%	11.39	11.03	10.80	10.61	10.43	8.10	10.80
ii)	Net Profit / Net Worth*	%	10%	7.26	6.75	6.43	6.16	5.90	3.11	6.43
iii)	Gross Profit / Capital Employed	%	10%	7.25	6.85	6.57	6.34	6.12	4.76	6.57
(b) Financial indicator - Size										
i)	Gross Margin	Rs. Cr.	8%	1892.56	1833.04	1794.76	1763.76	1733.70	1338.50	1794.76
ii)	Gross sales	Rs. Cr.	4%	2117.72	2057.83	2019.27	1988.05	1957.77	1610.09	2019.27
(c) Financial returns- Labour productivity & Total Factor Productivity										
i)	PBDIT / Total Employment	Rs Lacs / Capita	7%	33.01	31.97	31.30	30.76	30.24	22.71	31.30
ii)	Added Value / Gross sales	%	9%	23.25	20.36	18.19	16.28	14.38	-7.72	18.19
II Dynamic Parameters										
i) Quality Certification										
a)	ISO 9001:2000	No. of locations	1%	3	2	1	-	-	2	1
b)	ISO 14001:2004	No. of locations	1%	3	2	1	-	-	1	1
ii) HRD										
a)	% of manpower to be trained	%	0.5%	60	45	40	35	30	20	40
b)	% investment of gross salary towards training and HRD activity	%	0.5%	2	1.8	1.6	1.4	1.2	1.5	1.6
iii)	R&D Activities	Nbs.	2%	Details as per Annex I attached						
iv)	Energy Audit	Nbs.	2%							
v)	Projects Implementation	Nbs.	28%	Details as per Annex II attached						
vi)	Preparation of DPR	Nbs	2%	5	4	3	2	1	8	3
vii)	Consultancy Assignments	Rs. in crores	1%	20	18	16	14	12	16	16
viii)	Award of Contract for ERP Software and Implementation		1%	Feb.07	Mar.07	-	-	-	-	Mar.07
PART -B										
Specific Parameters										
1.	Generation **	MJ	2%	13860	13200	12540	11913	11317	11726	12540
2.	Capacity Index	%	8%	96.5	94.8	92.0	89.2	86.5	91.2	92.0
3.	Recovery of Current dues	%	1%	97	95	93	91	89	92	93
100%										



Annex.-I

RESEARCH & DEVELOPMENT AND ENERGY AUDIT

Performance Parameters & Their Weightages (Year 2006-2007)

Sl. No.	Performance Indicator	Unit	Wt.	Performance Rating					BE 2005-2006 PSE	BE 2006-2007 PSE	
				1	2	3	4	5			
R&D Activities											
1.	Approval of designated National Authority for CDM benefits	Nimoo Bazgo / Chutak	2%	Dec,06	Jan,07	Feb,07	Mar,07	-	-	Feb,07	
2.	Energy Audit of Generating Units										
(i)	Loktak Power Station	No. of units	1%	3	2	1	-	-	-	1	
(ii)	Tanakpur Power Station	Nos. of units	1%	3	2	1	-	-	-	1	